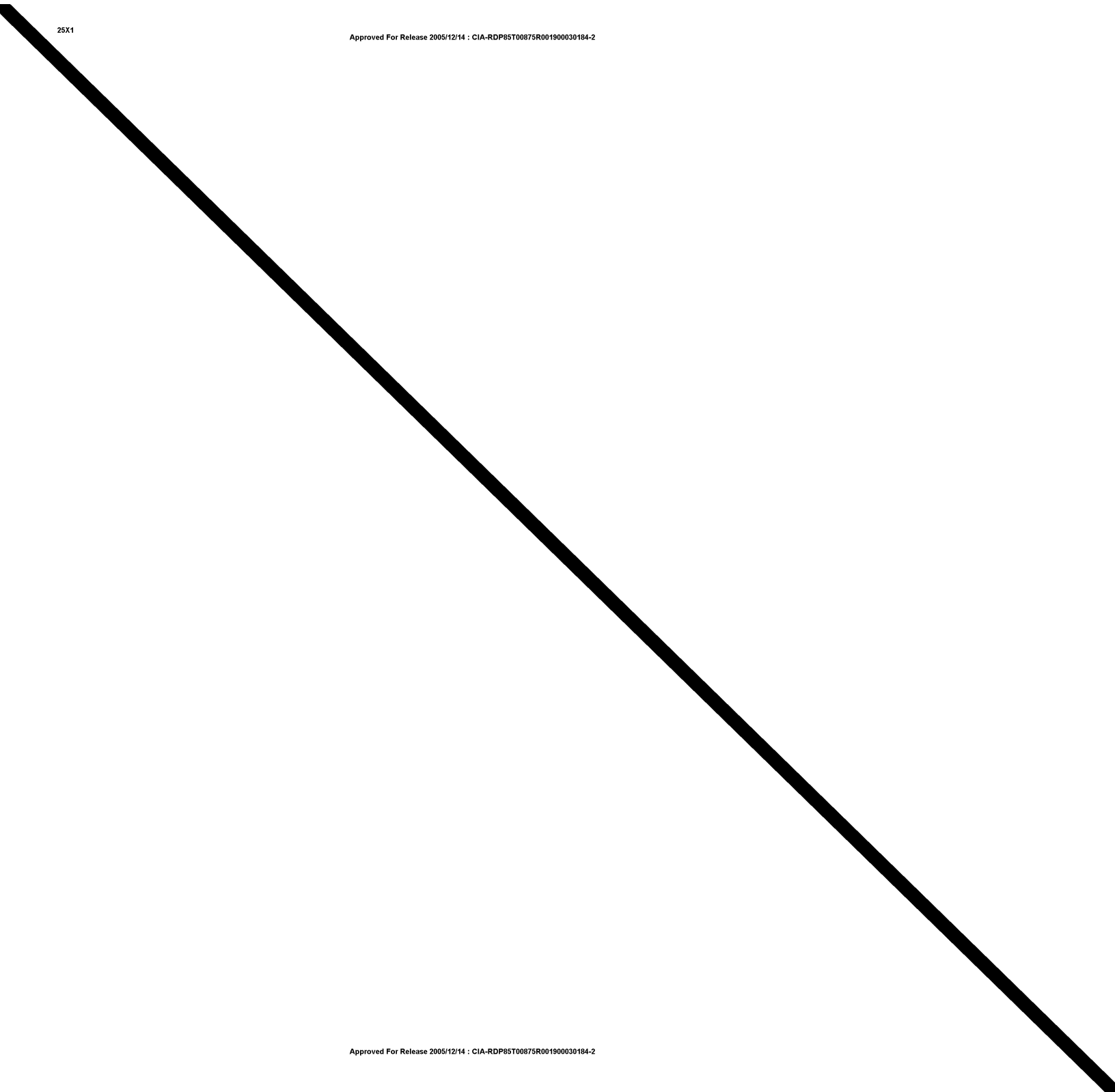

[redacted]

USSR: Current Outlook for the Economy

In 1973 the Soviet economy recovered strongly from the weak performance of 1972. Results in the first three quarters of 1974 indicate that the forward momentum is continuing.

Last year's achievements included:

-- overall economic growth of about 7.5%,

-- recovery of industrial growth from the slowdown of 1972,

-- a record grain crop of 222.5 million tons, and

-- a marked increase in the availability of consumer goods, especially food.

Soviet industrial growth so far in 1974 has been exceptionally good:

-- Industrial production will probably grow by more than 7% this year, the highest rate since 1967.

-- Leading the industrial advance are producer durables, processed foods, and chemical products; with meat products up more than 10% over last year, urban shortages have eased.

-- Lagging are ferrous metals and construction materials, already in short supply.

Grain output this year will amount to about 195 million tons:

-- We estimate domestic requirements and export commitments in FY 1975 at 200-210 million tons, or 5 to 15 million tons above production.

-- Recent Soviet purchases of foreign grain together with drawdowns from the reserves established from the record 1973 crop should cover the shortfall.

[redacted]

Until this year, the USSR has been unable to generate sufficient exports to finance growing imports from hard currency countries. In 1973, the Soviet trade deficit with these countries was $1.75 billion. But there has been a major turnaround in the Soviet hard currency picture.

-- High prices for oil and other raw materials will increase the value of Soviet exports substantially; at the same time, grain imports have declined in 1974. An export surplus of $1 billion to $1.5 billion is expected in 1974. The 1975 surplus may well be larger.

-- High gold prices provide an additional cushion. At $150 an ounce, sales out of current production would earn the Soviets over $1 billion in 1974 and even more in subsequent years.

The strong Soviet hard currency position will improve the USSR's bargaining power in the international economic arena over the next few years.

-- Moscow can now afford to pay cash as it agreed to do recently for $800 million worth of West German equipment for the Kursk steel complex and for $100 million of International Harvester crawler tractors.

-- The USSR can resist high interest rates and is likely to bargain hard on other commercial terms.

-- The Soviets can also consider postponing exports of some commodities, such as diamonds, which probably will bring higher prices in the future.

The main underlying problems in the Soviet economy continue to be:

-- An inability to smoothly translate knowledge of new techniques and new products into large-scale production.

-- Acute shortages of housing, generally poor quality of consumer goods, and indifferent service in the consumer sector.

CIA/OER
4 Nov 74

Trends in US-Soviet Trade

US-Soviet trade in 1974 will decline from the record level of 1973: trade turnover will fall from $1.4 billion to about $1 billion because of the sharp decline in US exports of agricultural products. Exports will fall from almost $1.2 billion to $600-700 million. Imports will double, however, to roughly $400 million. The US export surplus in 1974 will accordingly be less than one-third and possible only one-fifth the $1 billion level achieved in 1973. In 1975 increased US exports of machinery and equipment and large grain shipments will probably push US exports above 1974 totals. Imports may be higher in 1975 as well.

Data for the first nine months of 1974 show that the sharp decline in deliveries of US grain and soybeans was responsible for the fall in exports (see attached table). Exports of machinery and equipment were only slightly above those of last year. The increase in imports was paced by oil and oil products which matched imports for all of 1973. Imports of platinum group metals also made a strong showing.

For 1974 as a whole, US exports will probably decline 40-50%. About $100 million in grain is scheduled for delivery to the USSR during the last quarter, so that total grain exports for 1974 will be roughly $300 million. Deliveries of machinery and equipment are not moving as quickly as anticipated, although a sharp rise in the last quarter could bring the total for the year as high as $300 million. Total US exports to the USSR are unlikely to exceed $700 million and may be even less.

US imports in 1974 will depend heavily on the volume and price of oil. Increased imports of oil for the winter heating season could boost imports to perhaps $150 million. Platinum-group metals are being imported at a higher rate than in 1973 and may more than double this year to about $150 million.

In 1975 US exports probably will exceed the 1974 level. About $300 million in grain deliveries are already scheduled and more Soviet orders are possible in the fall of 1975. Soviet contracts for US machinery and equipment have increased annually and deliveries to the USSR could be on the order of $400-500 million. Imports may continue to increase, particularly if recent trends in imports of oil and metals are sustained. The granting of MFN treatment to the USSR might have some impact on imports, especially diamonds.

US-USSR Trade
1973-1974

Million US $

	January - September		Year	
	1973	1974	1973	1974 (est)
US Exports				
TOTAL	972	415	1,187	600-700
Grain	707	194	837	300
Soybeans	67	--	67	--
Machinery and Equipment	137	151	204	200-300
Chemicals	14	20	17	30
Iron and Steel	7	5	14	10
Other	40	45	48	60
US Imports				
TOTAL	137	264	214	400
Oil and Oil Products	36	77	76	150
Platinum Group Metals	60	112	75	150
Diamonds	11	9	17	15
Chrome Ore	3	7	6	10
Nonferrous Metals	11	33	18	45
Other	16	26	22	30

USSR: The Siberian Projects

Large-scale investment in Siberia is a major element in the Soviet 15-year plan (1975-1990) now on the drawing board. Plans call in particular for more intensive development of oil, gas, coal, mineral, and timber resources and the construction of a second trans-Siberian railroad line to help develop these resources. The Siberian projects are designed to provide for the long-range needs of the Soviet economy, meet export commitments to Eastern Europe, and generate extra output that can be sold to hard currency countries.

Many of the richest deposits are located in out-of-the-way areas where the climate is unusually severe. These difficult conditions pose technical challenges in transportation, construction, and production that Moscow is not able to face without extensive foreign assistance. The Siberian projects completed or approved involve about $3.5 billion in foreign investment, almost all Japanese or West German. Foreign investment in projects still under discussion could exceed $10 billion, of which the US share might be two-thirds.

5X1

A. Forestry Projects

1. First Timber Project

The first development project involving foreign participation, begun in 1968, called for exploiting timber resources along the Amur River in the Soviet Far East. It is now completed. Under Japanese credits, the USSR imported $133 million in timber cutting and hauling equipment and $30 million worth of consumer goods. In return, the USSR supplied the Japanese with a total of 8 million cubic meters of saw logs and pulp wood during 1969-73. Soviet earnings from these exports roughly covered the cost of the project-associated imports from Japan.

2. Second Timber Project

In July 1974 the USSR concluded a much larger contract with the same Japanese companies. The USSR in 1975-78 will import $550 million in Japanese timber cutting and processing equipment, ships, and consumer goods. Japanese Eximbank credits will cover the purchases. The credit terms for the logging equipment and the ships -- valued at $500 million -- vary from six to eight years at 6-3/8% to 7-1/2% interest. The USSR will deliver more than 18 million cubic meters of saw logs and other timber products to Japan during 1975-79 at prices to be negotiated annually. Soviet earnings from these deliveries could be double the value of the Japanese credits.

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3. Wood Chip Plant

In December 1971 a consortium of Japanese companies agreed to help the USSR build a wood chip plant in the Soviet Far East. The contract called for Japan to supply the USSR with $45 million in machinery and ships in 1972-75. Soviet purchases were to be covered by a five-year, 6% loan backed by the Japanese Eximbank. In return, Moscow was to supply over 12 million cubic meters of wood chips and pulp to the consortium during 1972-81. Prices of the chips and pulp, fixed for the first six years, were to be renegotiated in 1977. This agreement is not being implemented on schedule; the Soviets have ordered less than 25% of the equipment to date.

4. Pulp/Paper Plant at Ust'Ilimsk

The USSR is building a major wood processing center at Ust' Ilimsk, located on the Angara River northwest of Lake Baykal. The center will process annually 500,000 tons of wood pulp and 1.2 million cubic meters of lumber. Factories to produce chip boards will also be built. The Ust' Ilimsk development is a Bloc-wide project; Romania, Poland and East Germany are providing large amounts of equipment in return for long term deliveries of wood pulp. In addition, the USSR has ordered $180 million worth of equipment from the West -- largely from France, Finland, and Sweden.

[redacted]

B. Energy-Related Projects

1. Yakutsk Natural Gas

In 1973 the USSR concluded a general agreement with US and Japanese firms for the development of natural gas deposits in the Yakutsk region in eastern Siberia. El Paso Natural Gas and Tokyo Gas have reached an agreement on their joint participation in the exploratory phase of the project.

The project would entail the construction of a 1,200 mile pipeline from Vilyuysk to Nakhodka on the Pacific Coast, where facilities to liquefy and export the gas would be built. Japan and the United States would each receive 1 billion cubic feet per day (cf/d) of liquefied natural gas (LNG) over a 20-year period beginning about 1985. Roughly $3 billion in Western plant and equipment would be supplied by the US and Japan and financed by long-term credits.

[redacted]

The existence of sufficient reserves to justify such a large investment is in doubt; three to five years of exploration will be needed to verify the reserves claimed by the USSR. The Soviets have asked for $200 million in US and Japanese credits to support this exploration. Although the Japanese have agreed to finance half of this amount, their participation is contingent on the availability of a matching amount from the US Eximbank. If US Eximbank financing becomes available, a general agreement might be reached by early 1975.

2. North Star LNG Project

A consortium of three US companies -- Tenneco, Texas Eastern, and Brown and Root -- has been considering a cooperative venture with the USSR to import 2 billion cf/d of LNG over a 25-year period for US east coast markets. All of the gas would come from the large Urengoy deposit in Western Siberia via a pipeline to an export terminal near Murmansk. Difficulties over the pricing of the gas and the availability of Western financing have hindered progress on the negotiations. The project depends on Eximbank credits and guarantees to cover Soviet purchases of up to $2.5 billion in Western equipment for the pipeline, liquefaction plant, and port facilities. Even if an agreement is reached soon, deliveries would not begin until the early 1980s.

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3. Natural Gas to Western Europe

In recent years the USSR has contracted to deliver 2 billion cf/d of natural gas to Western Europe by 1980. Although the gas is now being piped from Central Asian and Ukranian gas fields, future deliveries may come from the Urengoy fields -- the intended source of the North Star deliveries. A major pipeline system, which now supplies gas to Moscow and Leningrad from deposits in the Komi Autonomous Republic, probably will be extended to Urengoy as additional gas deposits are developed. This pipeline (the Northern Lights) will be tied into the gas pipeline network now connecting Eastern and Western Europe.

The Soviets have relied on West European suppliers for much of the line pipe and related equipment required for this and other natural gas pipelines, with imports from the West tied to the future gas deliveries. To date the USSR has contracted for $2 billion in pipe and pipeline equipment from the West. By 1980, annual Soviet earnings from natural gas sold in Western Europe should exceed $8 billion.

4. Sakhalin Offshore Exploration

The Soviets are nearing final agreement with a Gulf Oil-Japanese consortium to explore offshore oil and natural gas deposits on the Sakhalin continental shelf. Last April the USSR and Japan agreed in principle to explore these

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reserves. The accord called for Japan to provide $100 million to $200 million in long-term loans to finance the exploration. In return, Japan would receive a long-term option to purchase 50% of all oil recovered.

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Total offshore reserves on the Sakhalin continental shelf could equal the reserves claimed for Alaska's Prudhoe Bay. Total Western investment required to explore and develop one or two major offshore oil fields might well exceed $1 billion.

5. Chul'man Coal Deposits

In June 1974 the USSR signed an agreement with a consortium of Japanese firms to develop coking coal deposits near Chul'man. At the same time the Soviets concluded an agreement with Japan's Eximbank for $450 million in long-term credits to finance Soviet purchases of coal mining equipment, railway equipment, and consumer goods. In return, the USSR will supply the Japanese consortium with a total of 104 million tons of coal during 1979-99, about 5% of projected Japanese needs. If coal prices stay up, Soviet earnings from the

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project could exceed the cost of foreign credits by several billion dollars. US firms may be asked to supply some of the advanced equipment required by the USSR.

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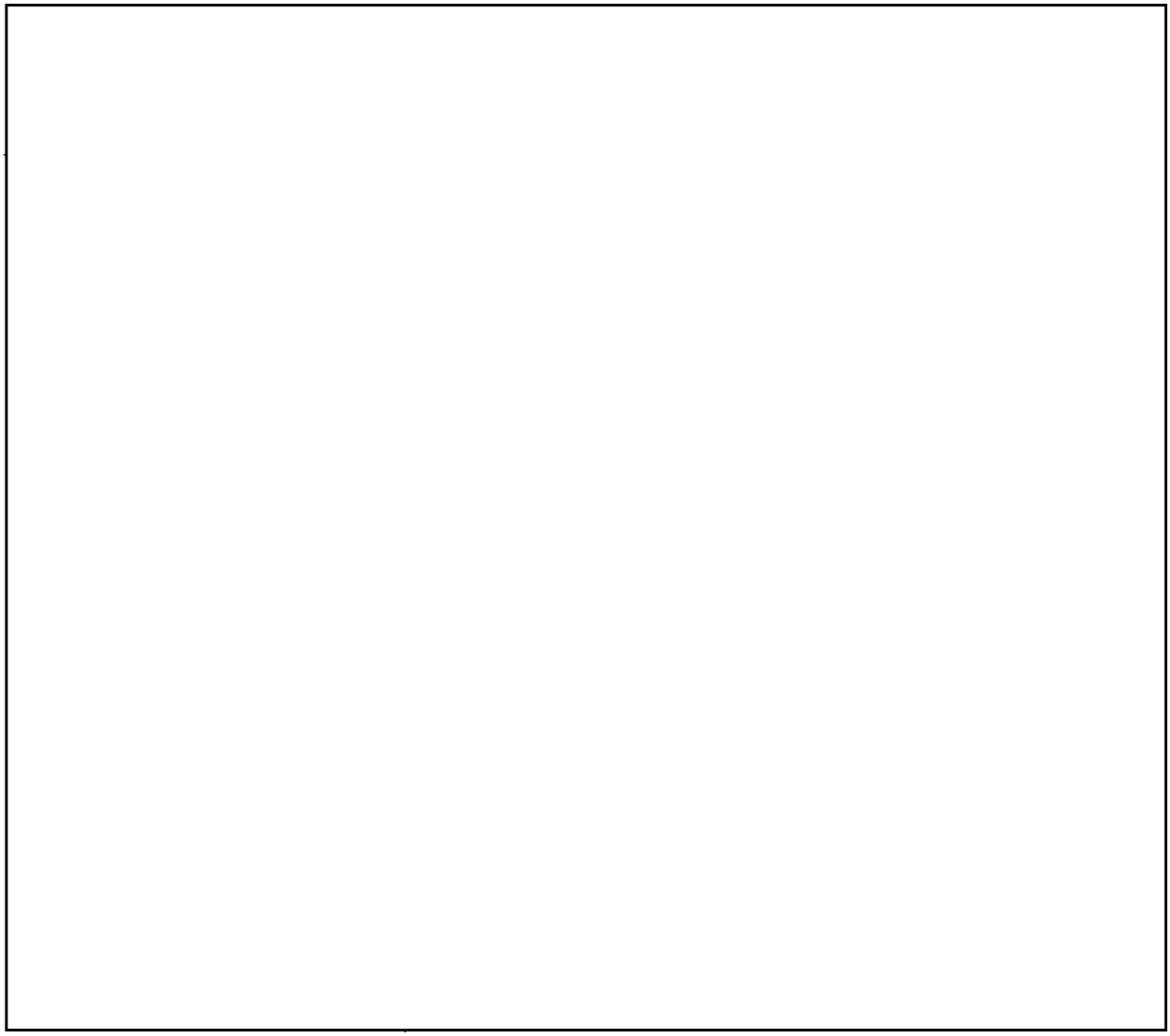

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C. Infrastructure

1. Baykal-Amur Railroad

Moscow has decided to build a second trans-Siberian railroad running from 100 to 500 miles north of the existing trans-Siberian line. Some segments at the Eastern and Western ends of the planned Baykal-Amur Magistral (BAM) already have gone into operation. The BAM will provide access to important Siberian mineral deposits -- including coal, copper, iron ore, and gold -- and open up new lands for industrial and agricultural development. The new line will be less vulnerable than the existing trans-Siberian line, which at some locations is within ten miles of the Chinese border. In October 1974 the USSR agreed to purchase $100 million in crawler tractors from International Harvester to help in building the new line.

2. Port Development Project

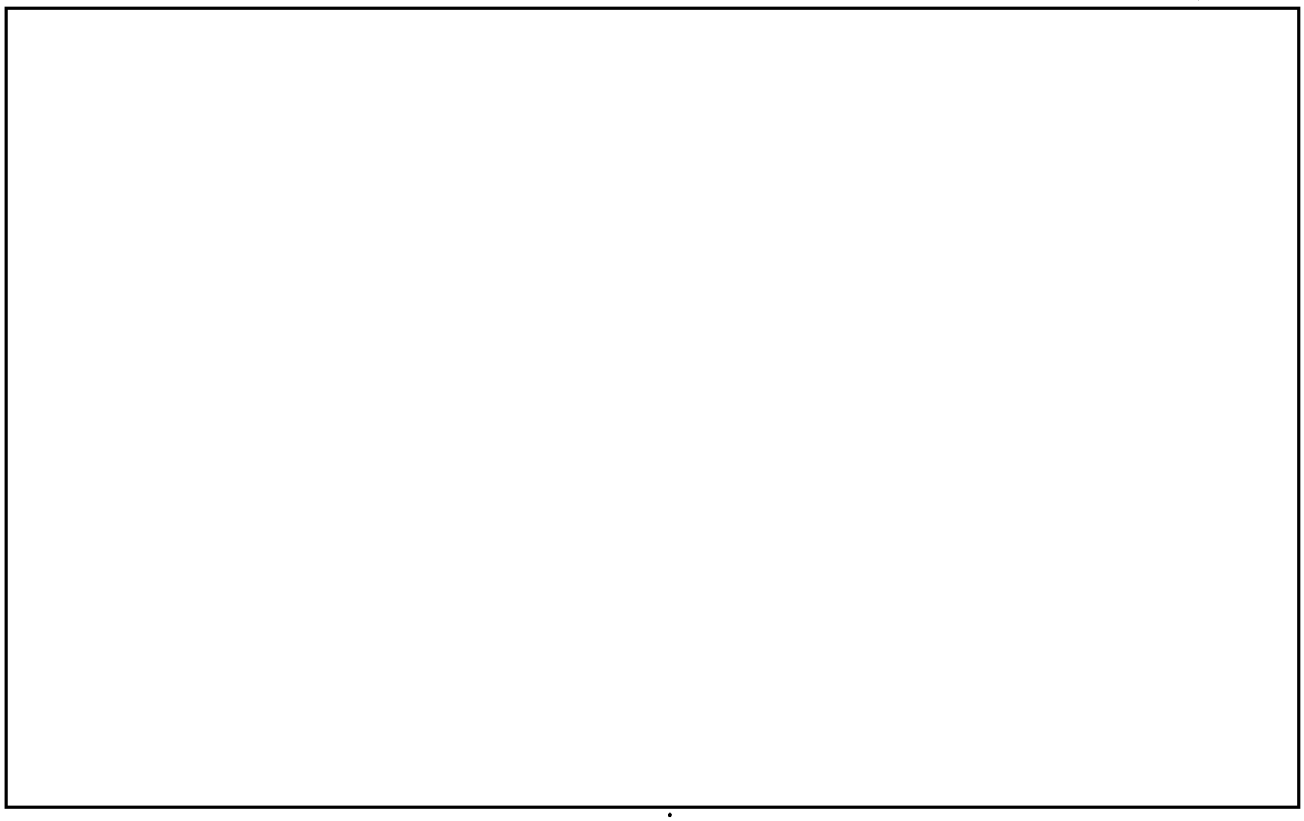
In late 1970 the USSR signed an agreement with a consortium of Japanese firms for the joint development of port facilities at Vostochnyy, on Vrangel Bay 65 miles east of Vladivostok. The Japanese firms are providing $80 million in engineering services, equipment for port facilities, and construction equipment. Soviet purchases are being financed by long-term Japanese Eximbank credits. When completed -- possibly by 1975 -- the port will be the largest in the Soviet Far East. The coal and wood chip handling facilities under

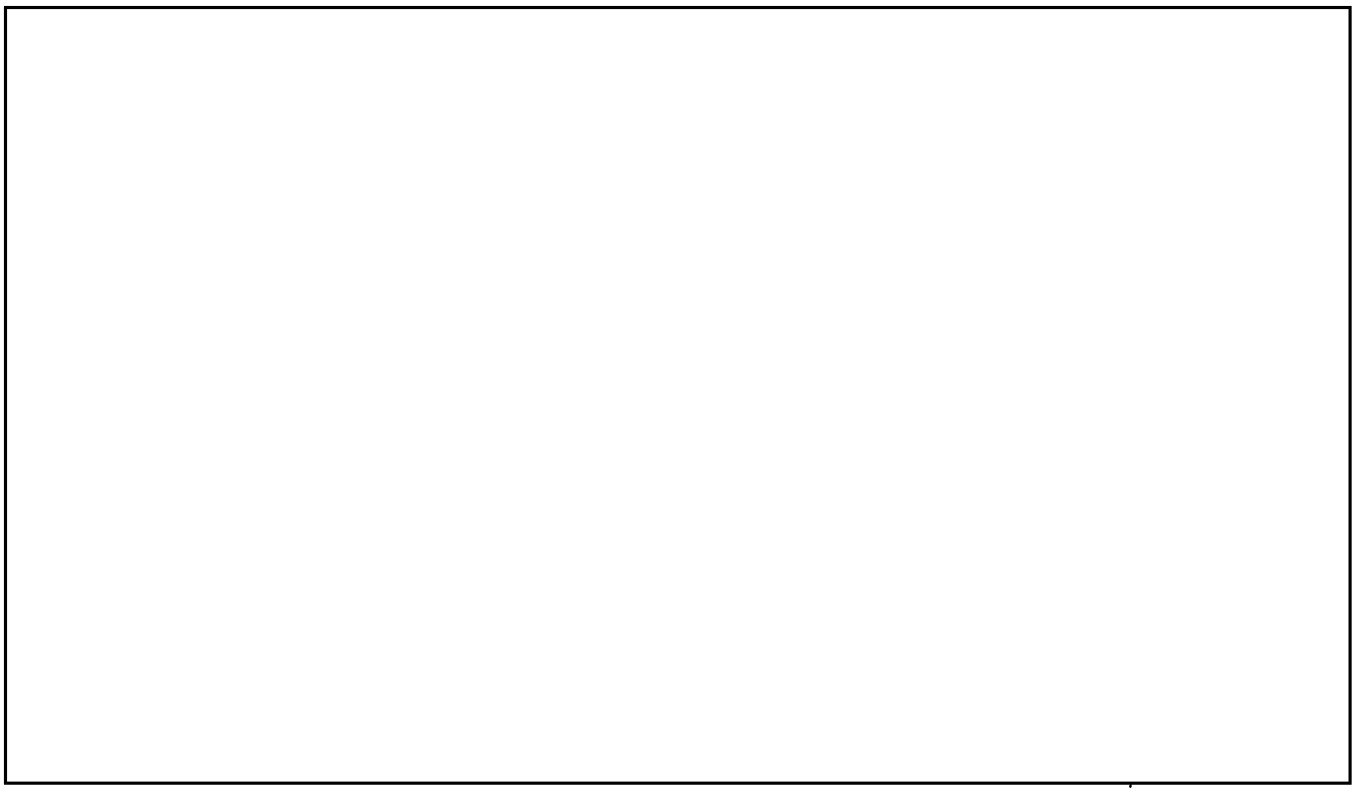
construction at the port should be fully employed in handling exports resulting from Soviet-Japanese resource projects. A large modern container facility also has been built to support the recently inaugurated Siberian "land-bridge" for Japanese-European container traffic.

D. Metals

1. Aluminum Processing Facilities

The Soviets have expressed considerable interest in obtaining foreign cooperation in producing goods requiring large energy inputs since energy is plentiful in parts of Siberia. In this connection, the USSR is negotiating with US and French firms for developing its Siberian aluminum industry.





2. Other Metals

The USSR recently signed a $300 million contract for Finnish smelting equipment for a major expansion of the Noril'sk copper-nickel combine. The USSR has negotiated for nearly a decade with Western firms over the development of the rich Udokan copper deposits east of Lake Baykal. Western investment has been deterred in part by the lack of rail facilities and other supporting facilities in that remote area. Construction of the new Trans-Siberian railroad, however, should spur interest in Udokan copper as well as other resources in that area. Soviet officials have announced that other mineral

deposits being readied for development include copper and nickel deposits at Nizhneangarsk and polymetalic deposits of lead, zinc, fluorite, and various rare metals at unspecified locations. The new railroad will also provide access to large Soviet iron ore deposits in East Siberia.

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4 Nov 74